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Report Highlights: A periodic update of competitor trends and activities in the Japanese market, this issue includes: Norway Funds Seafood in Japan 10 Times U.S. Level; Japanese Imports of Chinese Broccoli Rise Rapidly; Organic Vegetable Imports from China Increasing; Surge in Imports of Fresh Strawberries from South Korea; China Emerges as Major Rice Supplier Under SBS System; Sudden Rise in Imports of Canadian Soybeans at Expense of U.S. Suppliers; Japanese Domestic Soybean Competition Also Growing; China and Thailand Lead Japan's Frozen Food Imports; and Poultry Competition from China Partly Fueled by Export Tax Refund Program.

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Competition Alert

An Update of Competitor Trends and Activities in the Japanese Market

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- ' **Norway Funds Seafood in Japan 10 Times U.S. Level:** According to trade sources, Norway's promotional funding for seafood in Japan is roughly \$7 million, 10 times the level of U.S. seafood marketing activities in Japan. This is evidenced most recently by Norway's multiple 30-second television spots aired daily during prime time.
- ' **Japanese Imports of Chinese Broccoli Rise Rapidly:** Japanese imports of fresh Chinese broccoli continue to grow, with shipments in 2000 estimated at 9,000 tons, up from 2,300 tons in 1999. Most sales occurred in the late fall and winter months, when U.S. broccoli prices were comparatively high. With low production costs and good quality on Chinese product, U.S. broccoli shippers will continue to face increasing competition from China in the late fall and winter months, the peak period for Chinese production. (Refer to Report JA1005 for more detailed information.)
- ' **Organic Vegetable Imports from China Increasing:** *Nichirei* plans to start selling frozen organic vegetables from China in supermarkets nationwide this spring, according to the *Japan Economic Newspaper*. *Nichirei* was able to reduce prices by contracting with local Chinese vegetable farmers and processing the final product in China. Similarly, last fall, leading supermarket retailer *JUSCO* also began selling frozen spinach, green asparagus, onions, and broccoli imported from China as part of their "Top Value Green Eye" private brand. Both company's products will be certified under Japan's new JAS organic standard which takes effect in April.
- ' **Surge in Imports of Fresh Strawberries from South Korea:** Japanese imports of fresh strawberries from South Korea have increased more than fivefold since 1998 to reach 1,103 metric tons (MT) in 2000. South Korea now holds a 20-percent share of the import market, up from 4% just two years ago. Sales are expected to continue to expand this year, driven by low-priced Korean product entering Japan during the winter months when U.S. product is not in season. Nearly all South Korean fresh strawberries are sold to Japan's confectionary industry as cake decorations.
- ' **China Emerges as Major Rice Supplier Under SBS System:** Unconfirmed press reports last year of major Japanese trading companies switching from U.S. to Chinese suppliers for imported rice have drawn attention to China's emergence as a major supplier of table rice to Japan under the SBS minimum access system. China's share of SBS tenders has nearly doubled over the past five years from 23.2% in 1996 to 44.4% in 2000. During the same period, the U.S. share dropped from 64.2% to 38.6%, out of a total of 120,000 tons contracted from all sources in 2000. Chinese rice is becoming more competitive than U.S. rice in terms of both taste and cost, due to recent quality improvements and its similarity to Japanese domestic rice which makes it perfect for blending. The price of Chinese rice

is now about 10% cheaper than low quality domestic rice used for blending purposes, while U.S. rice is about 5% higher. (Refer to Reports JA0062 and JA1014 for more detailed information.)

- **Sudden Rise in Imports of Canadian Soybeans at Expense of U.S. Suppliers:** According to the American Soybean Association's Japan Office, Japan's imports of soybeans from Canada more than doubled between 1998 and 2000 to reach 300,000 MT. During the same period, total imports of U.S. soybeans for food use declined by 25% overall to 693,000 MT, with a staggering 75% loss of trade in the IOM variety. Canada's sudden rise has been due to a smaller percentage of GM soybean acreage in Canada, as well as good weather conditions leading to a high quality harvest, compared to the worst quality U.S. crop in 40 years caused by a severe drought. Despite continuing competition from Canada, the U.S. situation is expected to improve this year with increased non-GM production and normal weather.
- **Japanese Domestic Soybean Competition Also Growing:** Greater competition from Japanese domestic soybeans has also emerged, with production rising at least 86% between 1998 and 2000 to reach an estimated 130,000 MT, or possibly even higher. Further intensifying the situation is the Japanese Agriculture Ministry's plan to convert Japanese rice farms to soybeans as a means of reducing rice supplies and increasing self-sufficiency in soybeans.
- **China and Thailand Lead Japan's Frozen Food Imports:** According to a survey by the *Japan Frozen Food Association*, Japanese frozen food imports (mainly deep fried, breaded products) increased 5% in 1999 over 1998, in terms of both quantity and value. China and Thailand ranked as the largest supplying countries, with trade driven mainly by off-shore production in those countries by Japanese frozen food companies.
- **Poultry Competition from China Partly Fueled by Export Tax Refund Program:** In addition to low labor cost and logistical advantages, severe price competition from China in the Japanese chicken market is also partly due to an export tax refund program operated by the Chinese government. According to the USA Poultry and Egg Export Council's Japan Office, China has had a successful strategy of: 1) importing chicken leg meat from the United States, which is allowed to enter China duty free; 2) deboning and processing it in China; and 3) re-exporting the final further processed product to Japan. Since the final product is not considered to be U.S. origin, it is granted an export tax refund by the Chinese government, which is used as a means of devaluing the Chinese currency in order to manipulate export prices to a level below that of competitors.